



**LIETUVOS BANKAS**  
EUROSISTEMA

# Review of Lithuania's Insurance Market

## 1<sup>st</sup> Quarter of 2015

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**Abbreviations**

Casco	Motor vehicles insurance (other than railway rolling stock)
MTPL	Motor third party liability insurance
GS	Government securities

**Note:**

Totals in the tables may not add up due to rounding.

## I. REVIEW OF THE INSURANCE MARKET

As of 31 March 2015, 23 insurers provided insurance services in the domestic market, 8 of which were engaged in life assurance and 15 — non-life insurance activities. The number of insurers established in the country and providing life assurance services declined over the first quarter of 2015: Poland's insurance undertaking *MetLife Towarzystwo Ubezpieczeń na Życie i Reasekuracji Spółka Akcyjna* started winding up its branch in Lithuania and from 1 March 2015 will provide insurance services in Lithuania from Poland, exercising the right to provide services granted by the Treaty on European Union.

In the first quarter of 2015 the insurance undertakings registered in Lithuania and branches of insurance undertakings of other European Union Member States established in Lithuania wrote insurance premiums amounting to EUR 150.7 million, i.e. 6.9 per cent more year on year and the most in the history of the domestic insurance market.

The record large volumes of the insurance market were due to growth in both insurance branches; however, growth in the life assurance and non-life insurance branches was not uniform. In the life assurance market, a sharp activation has been observed for the second consecutive year: 14.0 per cent more premiums were written than in the same period of 2014, with their amount reaching record heights — EUR 50.7 million. The growth rates in the non-life insurance market were not as marked, with a year-on-year increase of 3.6 per cent in premiums written and their amount also record high — EUR 100 million. The non-life insurance market improved its best performance, achieved in 2008, by 1.0 per cent, or EUR 1.0 million.

Table 1. Premiums written

Insurance branches	Amount (EUR millions)	Growth rate	
		Q1 2015 (%)	Q1 2014 (%)
Life assurance	50.7	+14.0	+15.5
Non-life insurance	100.0	+3.6	+8.1
Total	150.7	+6.9	+10.3

The double-digit growth rates of life assurance premiums were driven mainly by unit-linked life assurance, which accounts for the largest share (68.0%) of life assurance premiums written. In the first quarter of 2015 the amount of premiums written within this insurance class increased by 15.9 per cent — to EUR 34.5 million. This indicates higher risk tolerance by insurance policy holders: with a decline in the interest rates on deposits, they looked for alternatives for saving, which were riskier yet potentially more profitable. The demand for conservative investment sources increased as well: EUR 12.0 million premiums in case of survival were written, a year-on-year increase of 7.2 per cent. The volumes of annuities and insurance in case of death grew strongly as well, with their growth rates reaching 8.9 per cent (EUR 1.3 million and EUR 2.7 million of premiums were written respectively). The amount of premiums written within all life assurance classes was record high, except for the marriage and birth insurance class, where premiums have been declining steadily due to non-conclusion of new contracts.

In the first quarter of 2015 growth in single premiums written recorded particularly strong growth (47.6%); at the end of the year, they amounted to EUR 8.5 million. Single premiums within the largest life assurance class — unit-linked life assurance — grew by 45.9 per cent (to EUR 7.2 million).

The amount of the technical provisions managed by market participants engaged in the life assurance activity kept growing and stood at EUR 860.7 million at the end of the first quarter of 2015. The leaders in the life assurance market in terms of the amount of technical provisions formed are the

Chart 1. Dynamics of premiums written in the entire insurance market (left-hand scale) and their growth rate (right-hand scale)

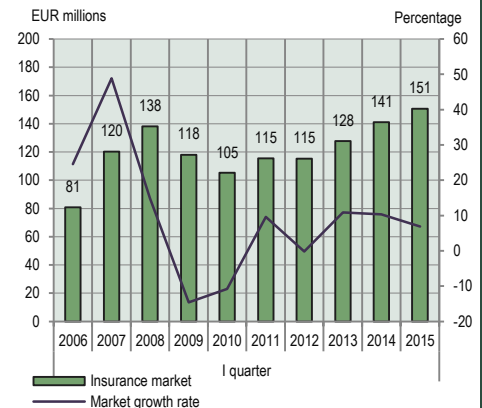


Chart 2. Dynamics of life assurance and non-life insurance premiums written

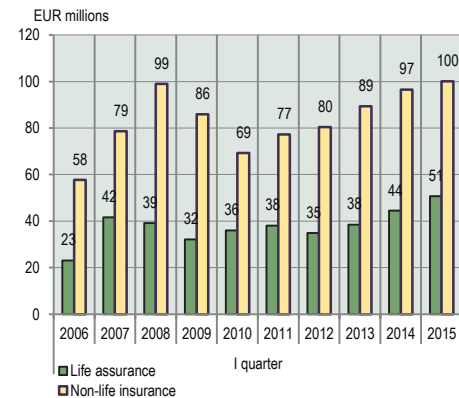


Chart 3. Dynamics of life assurance premiums written

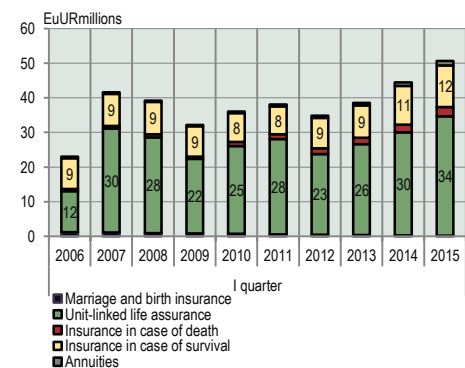
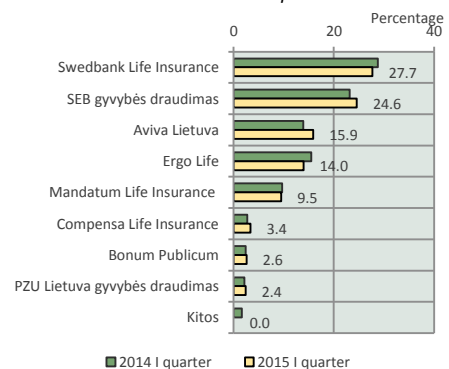


Chart 4. Concentration in the life assurance market in terms of the amount of technical provisions formed



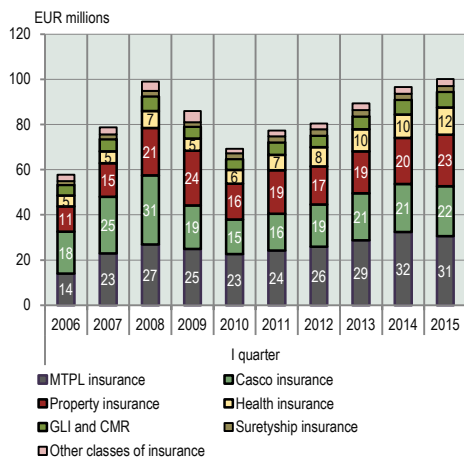


Chart 6. Concentration in the non-life insurance market in terms of premiums written within non-life insurance classes

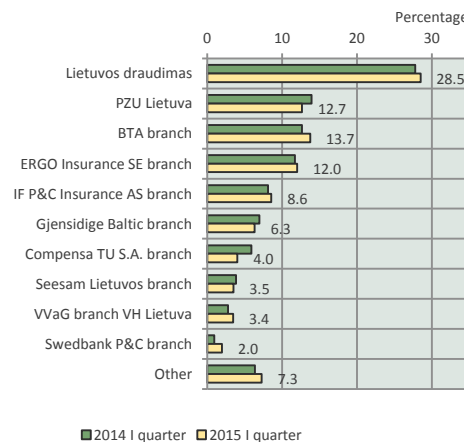


Chart 7. Dynamics of claims paid in the entire insurance market (left-hand scale) and their growth rate (right-hand scale)

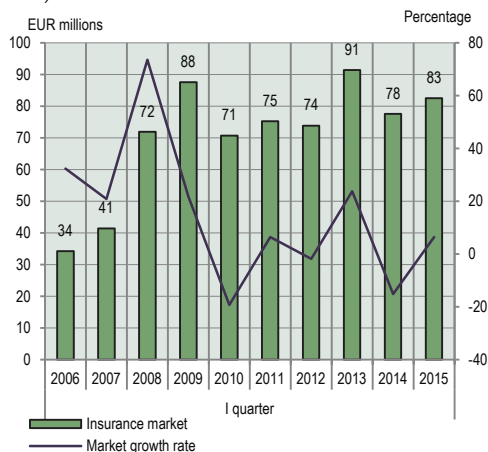
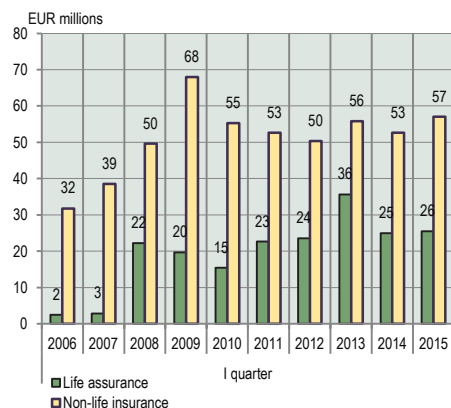


Chart 8. Dynamics of life assurance and non-life insurance claims paid



enterprises that have been operating in Lithuania longest and holding the oldest insurance portfolio: *Swedbank Life Insurance SE* Lithuania branch, *UAB SEB gyvybės draudimas* and *ERGO Life Insurance SE*. In 2015, *UAGDPB AVIVA Lietuva* joined them.

EUR 30.6 million of premiums were written within the largest non-life insurance class — MTPL — over the first quarter of 2015, a decline of 5.8 per cent year on year. The decline in the volumes within the MTPL insurance class was driven mainly by the contraction in the amount of premiums written by legal persons of 11.1 per cent and of 1.7 per cent in the amount of premiums written by residents. Within the Casco insurance class, EUR 22.1 million of premiums were written, a year-on-year increase of 4.6 per cent.

Growth in the non-life insurance market was driven mainly by changes in the property and health insurance classes. The amount of premiums written in the property insurance class boosted by 11.3 per cent — to EUR 22.8 million. The health insurance class posts stable enduring growth and record volumes of insurance are recorded annually due to an increase in the premiums written within the voluntary health insurance sub-class. In the first quarter of 2015, EUR 12.1 million of premiums were written within the health insurance class, a year-on-year increase of 17.8 per cent.

Increased competition in the non-life insurance market had an impact on changes in the market shares held as well. The four largest non-life insurance market participants maintained the highest market positions in the first quarter of 2015; however, *AB Lietuvos draudimas*, *BTA Insurance Company SE* branch and *ERGO Insurance SE* branch managed to expand their market share, while the market share of *UAB DK PZU Lietuva* contracted. It should be noted that in the near future essential changes are likely in the non-life insurance market due to changes in the non-life insurance market participant shareholders holding the largest market share.

Over the first quarter of 2015, insurers paid EUR 82.5 million of claims, a year-on-year increase of 6.4 per cent.

Table 2. Claims paid

Insurance branches	Amount (EUR millions)	Growth rate	
		Q1 2015 (%)	Q1 2014 (%)
Life assurance	25.5	+2.3	-30.0
Non-life insurance	57.0	+8.4	-5.7
Total	82.5	+6.4	-15.2

In the first quarter of 2015 the amount of claims paid within the life assurance class increased by 2.3 per cent — to EUR 25.5 million. However, the claims paid within the largest life assurance class — unit-linked life assurance — contracted by 1.5 per cent. Growth was driven mainly by insurance in case of survival and annuities claims paid, with their growth rates of 15.0 and 45.5 per cent respectively. Similar levels of life assurance claims paid have been observed since 2011, while the extraordinarily large amount of claims paid in 2013 was due to the expiration of a great many of agreements that were valid for 10 years, concluded in 2002, before the change in the taxation environment.

The growth of non-life insurance claims paid was driven mainly by an increase in the amounts paid within the property insurance class of 32.1 per cent, to EUR 7.7 million. Within the MTPL insurance class, EUR 21.0 million of insurance claims were paid over the first quarter of 2015, a year-on-year increase of 2.5 per cent. Casco insurance claims grew by 11.3 per cent (to EUR 18.3 million).

## II. REVIEW OF THE FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS

The transactions, conclusion of which started at the turn of the recent years, due to changes in the shareholders of insurance undertakings that were driven by the decision of the United Kingdom's insurance company *Royal & Sun Alliance Insurance* to sell its insurance business in the Baltic States and the PZU group's decision to acquire it, have not been finally implemented yet; therefore, as of 31 March 2015, insurance services were provided in the market by 10 registered insurance undertakings that did not change for some time already. The insurance business licences of two insurance undertakings — *UAB Būsto paskolų draudimas* and *UADB Industrijos garantas* — have been suspended; as a result, they are not active in their business. Two undertakings — *UAB DK PZU Lietuva* and *ERGO Life Insurance SE* — have established their branches in Latvia and Estonia, hence their financial statements also include the operating performance for the above-named countries. Further only the financial performance of insurance undertakings registered in the Republic of Lithuania will be discussed.

Over the first quarter of the year undertakings earned EUR 9.3 million in profits, a year-on-year decrease of 13 per cent. To evaluate the results for the last ten years, only in 2006 and in the first quarters of 2011 the overall operating performance of undertakings was a loss. The beginning of 2015 was quite a success — the profits earned are among the highest in over the decade. Higher profits — EUR 5.1 million — were earned by life assurance undertakings; the operations of all of them were profitable. The profits earned by non-life insurance undertakings were EUR 0.9 million below those of life assurance undertakings. One non-life insurance undertaking operated at a loss.

Comparing the profits earned in the initial quarters of 2015 and 2014 and evaluating which business area of this undertaking was more profitable, a reverse profit composition is observed. This year, most of insurance undertakings' profits — EUR 6.9 million — were earned from investing activities, while the positive operating result of insurance activities amounted to a mere EUR 3.1 million. Nearly all of the profits from insurance activities were earned by undertakings providing life assurance services. In the first quarter of the last year two thirds of the profits came from insurance activities. Low result of insurance activities suggests intensifying competition among insurers, which is particularly relevant among the insurers providing non-life insurance services. Insurance activities were loss-incurring for three undertakings, while investing activities — for one only of them. High return on invested assets was due to unrealised profits, received from investment products of higher profitability, acquired by insurance undertakings during previous periods.

As of 31 March 2015, the assets of insurance undertakings stood at EUR 1.068 billion, an increase of 22 per cent year on year. The increase in asset volumes over the year was due to the Polish insurance company *PZU S.A.* In the second half of 2014 funds were invested in order to expand the activities of *UAB PZU Lietuva* in other European Union Member States (*UAB DK PZU Lietuva* acquired the branch of Denmark's insurance company *Codan Forsikring A/S* in Estonia). In comparison with the end of 2014, the assets of insurance undertakings increased by a mere 4.4 per cent. The bulk of the assets of insurance

Chart 9. Dynamics of the operating performance of insurance undertakings

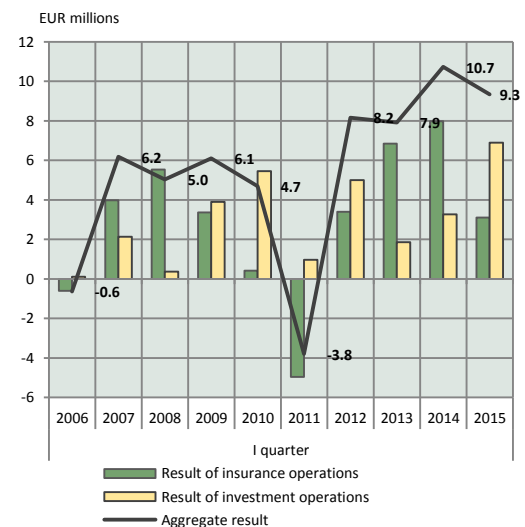


Chart 10. Dynamics of the composition of undertakings' assets

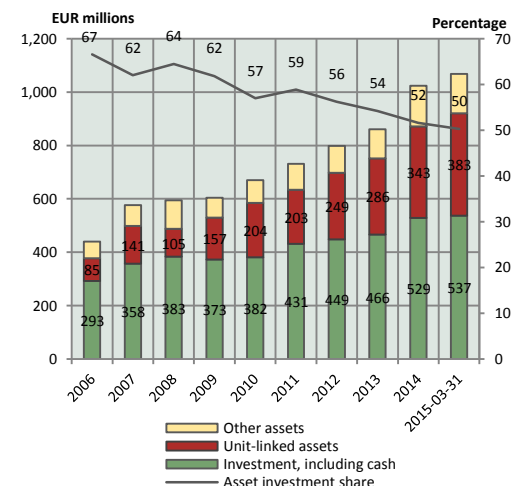


Chart 11. Dynamics of undertakings' investment composition

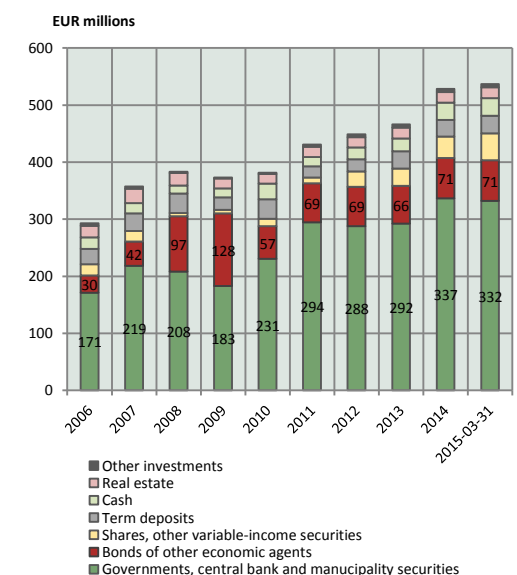


Chart 12. Insurance undertakings' investment by financing source as of 31 March 2015

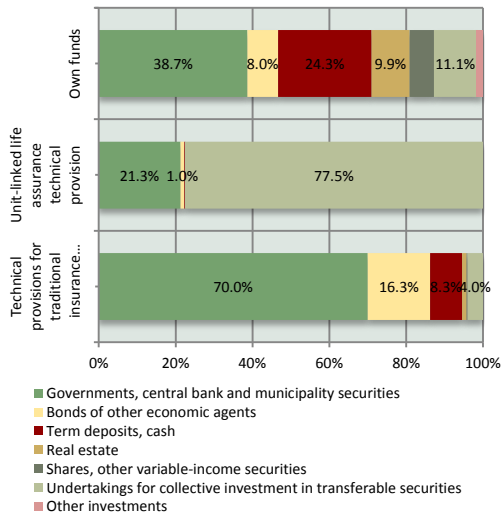
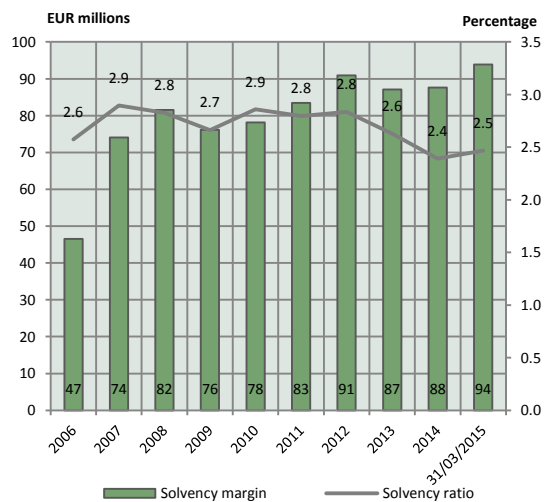


Chart 13. Dynamics of the solvency margin and solvency ratio of insurance undertakings



undertakings consists of investments — EUR 920.6 million (86.2%). Insurance undertakings' investments, in terms of their economic origin, are divided into investments of an undertaking and funds of insurers entrusted to undertakings, usually engaged in the life assurance activity. The funds of insurance policy holders entrusted to insurance undertakings for management as of 31 March 2015 amounted to EUR 383.5 million, i.e. more than half of total assets managed by life assurance undertakings. Investments of undertakings, which are used to cover traditional insurance technical provisions and equity as well as other liabilities, amounted to EUR 537.1 million at the end of the first quarter of 2015. The share of these investments in total assets of insurance undertakings, due to stronger growth in life assurance investments when the risk lies with the policyholder, has been declining steadily.

Over ten years, the investment portfolio composition (excluding the funds entrusted by insurance policy holders for management) has changed minimally — most of the funds are traditionally invested in government securities (as of 31 March 2015 — 62%). However, having compared the data for the last two reporting quarters, investment in variable-yield securities (shares and CIU) grew markedly — from EUR 38.0 million as of 31 December 2014 to EUR 47.3 million as of 31 March 2015. Insurance undertakings, seeking higher returns, invested mainly own funds, investing which is not subject to legislative requirements.

Most of the funds entrusted to insurance undertakings for management under unit-linked life assurance contracts as of 31 March 2015 have been invested in collective investment undertakings — EUR 297.3 million, or 77.5 per cent of total funds. This indicates the insurance policy holders' aim to assume higher risk while expecting higher return.

The highest levels of diversification have been achieved by investing undertakings' funds which remained spare after discharging the liabilities to cover technical provisions. Due to very low interest rates paid by commercial banks, the share of time deposits in the structure of the distribution of these funds has been contracting, but the share of funds invested in variable-yield investment products — shares and collective investment undertakings — has been expanding accordingly.

One of the insurance market's key financial stability indicators is the solvency margin or its relative representation — the solvency ratio, which indicates whether insurance undertakings have sufficient own funds to cover contingency losses and losses not taken into account when calculating technical provisions. As of 31 March 2015, the solvency ratio of insurance undertakings was 2.5; life assurance undertakings — 3.1, non-life insurance undertakings — 2.1 (out of five non-life insurance undertakings, three only are actively engaged in the insurance activity). The absolute value of the solvency ratio — the solvency margin — as of 31 March 2015 was EUR 93.8 million. The overall market solvency ratio grew minimally over the quarter — by 0.1 p.p.; in terms of value, the solvency margin increased by EUR 6.3 million, which indicates that the market is financially stable. Legal acts regulating the value of the solvency ratio obligate undertakings to maintain this indicator not below 1. It should be noted that all undertakings complied with this requirement.